

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Traverse Area District Library	County Grand Traverse
Audit Date 12/31/05	Opinion Date 3/8/06	Date Accountant Report Submitted to State: 5/1/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

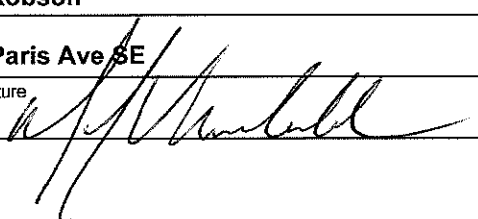
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 2330 East Paris Ave SE		City Grand Rapids	State MI
Accountant Signature 		ZIP 49516	Date 5/1/06

TRAVERSE AREA DISTRICT LIBRARY

TRAVERSE CITY, MICHIGAN

FINANCIAL STATEMENTS

For the Year Ended December 31, 2005

TRAVERSE AREA DISTRICT LIBRARY

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements for the Year Ended December 31, 2005	
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – (General Fund)	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – (Special Revenue Fund)	17
Notes to Financial Statements	18-27
Supplementary Information	
Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – (General Fund)	28
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 8, 2006

To the Board of Trustees
Traverse Area District Library
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund, of the **Traverse Area District Library** (the "Library") as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the **Traverse Area District Library**, as of December 31, 2005, and the respective changes in financial position thereof and the budgetary comparison for the general and special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2006, on our consideration of the Traverse Area District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The detailed schedule of revenues, expenditures and changes in fund balance – budget and actual – (general fund) are presented for purposes of additional analysis and are not a required part of the Library's financial statements. The detailed schedule of revenues, expenditures and changes in fund balance – budget and actual – (general fund) has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohsen". The script is cursive and fluid, with the first name "Lehmann" and last name "Lohsen" clearly distinguishable.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Traverse Area District Library (the "Library"), we offer readers of the Traverse Area District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

1. Refunded the remaining \$5,920,000 1996 Library Facility Bonds at significantly lower interest rates.
2. Created a Board-designated fund within the General Fund to help offset branch library expansion costs.
3. Received only one-half the amount of income expected from cable franchise fees for the support of local public access television.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's financial statements. The Library's basic financial statements comprise three components:

1. government-wide statements
2. fund financial statement, and
3. notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves. The supplementary information includes a detail budget and actual schedule for the general fund and this management discussion and analysis.

Government-wide Statements

The *statement of net assets* presents information on all of the library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in governmental funds including the general, special revenue, debt service, and permanent funds.

Governmental funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental fund statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Library maintains four governmental funds. Information is presented in the governmental funds balance sheet and in the government funds statement of revenues, expenditures, and changes in fund balances for the Government. The general, special revenue, debt service, and permanent funds are major funds for financial reporting purposes as defined by GASB Statement #34.

The Library adopts an annual appropriated budget for its general fund and special revenue fund. A budgetary comparison statement has been provided herein to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 12 through 17 of this report.

The Library does not maintain proprietary nor fiduciary funds.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements. The notes to the financial statements can be found on pages 18 through 27 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Traverse Area District Library Net Assets

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$5,729,043	\$5,907,068
Capital assets	<u>7,784,307</u>	<u>8,009,656</u>
Total assets	<u>13,513,350</u>	<u>13,916,724</u>
Long-term liabilities outstanding	5,778,171	6,407,829
Other liabilities	<u>4,738,099</u>	<u>5,003,346</u>
Total liabilities	<u>10,516,270</u>	<u>11,411,175</u>
Net assets:		
Invested in capital assets, net of related debt	1,738,729	1,429,656
Restricted	677,827	365,174
Unrestricted	<u>580,524</u>	<u>710,719</u>
Total net assets	<u>\$2,997,080</u>	<u>\$2,505,549</u>

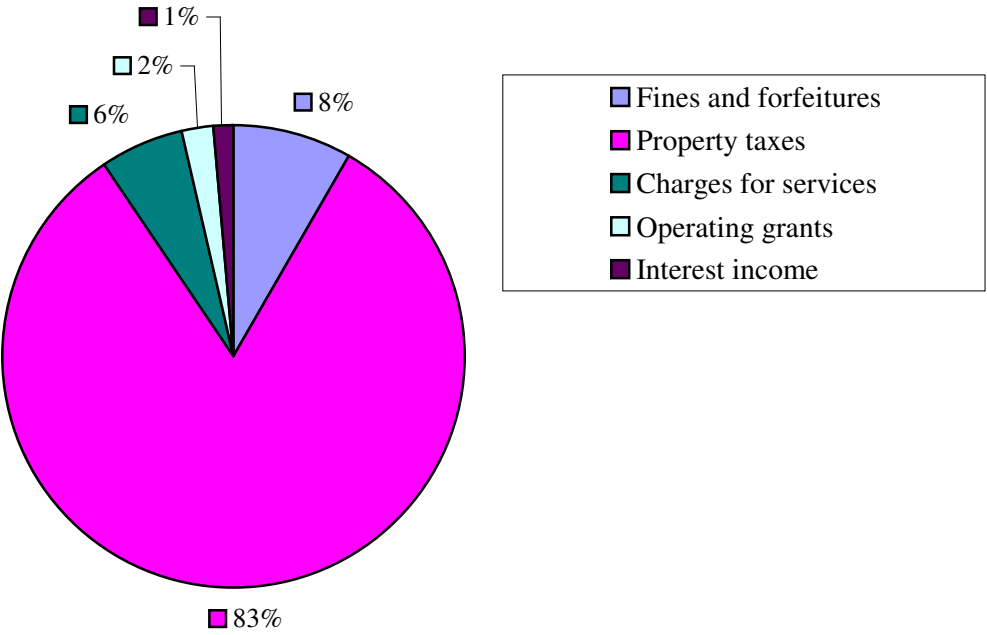
Traverse Area District Library Change in Net Assets

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Revenue:		
Program revenue:		
Charges for services	\$ 284,273	291,025
Operating grants	<u>101,670</u>	<u>207,548</u>
Total program revenue	385,943	498,573
General revenue:		
Property taxes	3,924,005	3,735,674
Fines and forfeitures	398,542	393,772
Interest income	<u>65,742</u>	<u>25,764</u>
Total general revenue	4,388,289	4,155,210
Expenses:		
Library services	4,148,811	4,048,747
Interest expense	<u>133,890</u>	<u>352,563</u>
Total expenses	4,282,701	4,401,310
Increase in net assets	491,531	252,473
Net assets – beginning of year	<u>2,505,549</u>	<u>2,253,076</u>
Net assets – end of year	<u>\$2,997,080</u>	<u>\$2,505,549</u>

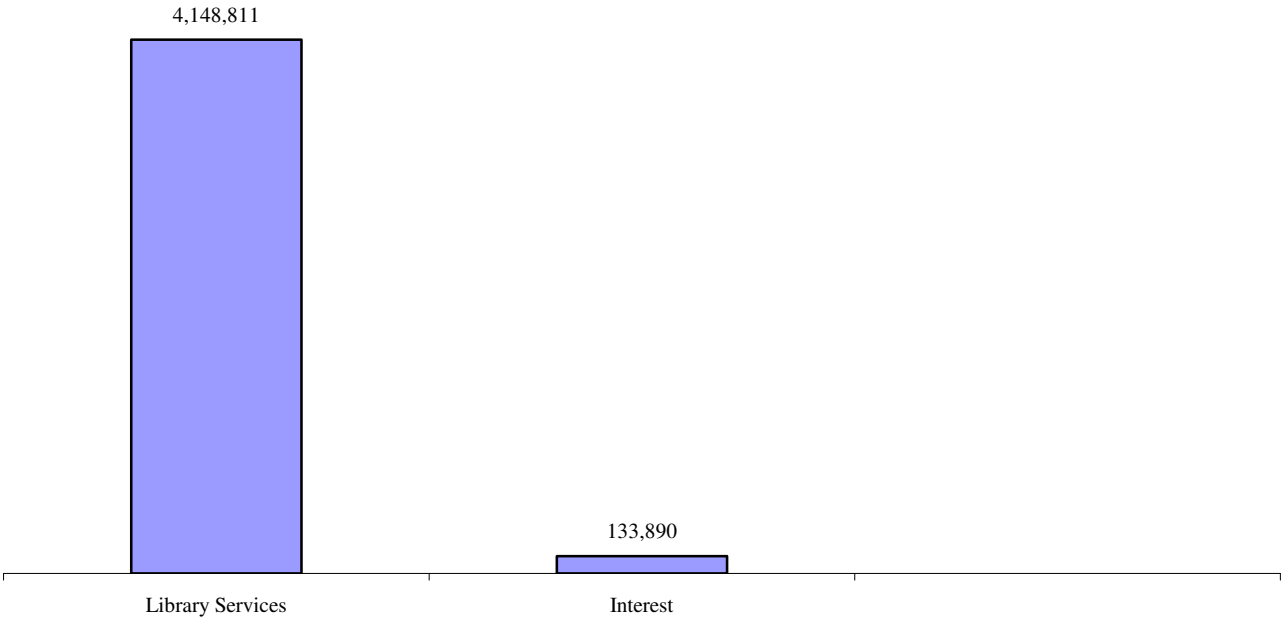
Operating grant revenue decreased significantly from prior year due to a large donation received in the prior year.

Interest expense decreased significantly due to refinancing debt during the year.

Revenues by Source - Governmental Activities



Expenses - Governmental Activities



Financial Analysis of the Governmental Funds

As of the end of the current fiscal year the combined fund balance of \$1,477,120 reflects an increase of \$175,108 from the previous year. The original budget for the general fund included a projected excess of \$81,665 (a 2% contingency). While income was right on target, overall expenses were actually 2% less than expected. As a result, the Library was able to increase its fund balance.

Significant changes in the general fund original budget were as follows:

1. State Aid to Public Libraries was cut statewide.
2. An improved level of benefits in the retirement program increased employer contributions.
3. Switching carrier for disability insurance reduced premiums.
4. A planned change-out of lights was completed in the prior year reducing maintenance supply costs.
5. Due to extended contract negotiations with the Union, attorney fees were significantly higher than originally anticipated increasing the amount spent on professional services.
6. Communications costs were reduced due to Universal Service Fund.
7. Discretionary travel and printing was reduced.
8. Insurance renewal rates came in lower than anticipated.
9. Delayed purchase of replacement computers and servers.

Capital Assets

Major capital asset purchases during the current fiscal year included the following:

- Collection additions of \$294,252
- Equipment additions of \$15,422

Traverse Area District Library Capital Assets (net of depreciation)

	Governmental Activities	
	2005	2004
Land	\$ 345,545	\$ 345,545
Building	6,116,482	6,304,485
Collections	792,121	760,173
Furniture and equipment	<u>530,159</u>	<u>599,453</u>
Total	<u>\$7,784,307</u>	<u>\$8,009,656</u>

Additional information on the Library's capital assets can be found in Note 8 on page 27 of this report.

Long-term debt

Traverse Area District Library Outstanding Debt

	Governmental Activities	
	2005	2004
Compensated absences	\$ 180,659	\$ 182,829
General obligation bonds	6,295,000	6,580,000
Deferred issuance costs	<u>(249,422)</u>	<u>-</u>
Total	<u>\$6,226,237</u>	<u>\$6,762,829</u>

Additional information on the Library's long-term debt can be found in Note 4 on pages 25 and 26 of this report.

Economic Factors and Next Year's Budgets and Rates

We anticipate no major changes in library operations for 2006. Budget considerations included increased costs for staffing, utilities, materials and supplies. Personnel costs is the largest expense and we anticipate a modest 4% increase. We will also be replacing several computers and servers during the year.

Property tax is the primary source of income. Considering the economic strength of the Traverse City area and its continued growth, we do not anticipate any major change in total income despite the possibility of additional cuts in State Aid and any variations in Penal Fine revenue.

Requests for Information

This financial report is designed to provide a general overview of Library's finances for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Traverse Area District Library, 610 Woodmere, Traverse City, Michigan 49686.

TRAVERSE AREA DISTRICT LIBRARY

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 489,167
Investments	1,595,170
Receivables	
Interest	14,627
Property taxes	3,610,478
Prepaid expenses	19,601
Total current assets	5,729,043
Capital assets	
Land	345,545
Depreciable capital assets (net)	7,438,762
Total assets	13,513,350
Liabilities	
Current liabilities	
Accounts payable	13,795
Accrued liabilities	41,173
Interest payable	38,110
Unearned revenue	4,196,955
Compensated absences payable within one year	18,066
Bonds payable within one year	430,000
Total current liabilities	4,738,099
Noncurrent liabilities	
Compensated absences	162,593
Bonds payable in more than one year	5,615,578
Total noncurrent liabilities	5,778,171
Total liabilities	10,516,270
Net assets	
Invested in capital assets, net of related debt	1,738,729
Restricted for	
Capital projects	274,894
Debt service	68,729
Budget stabilization	313,224
Permanent fund	
Expendable	980
Nonexpendable	20,000
Unrestricted	580,524
Total net assets	\$ 2,997,080

The accompanying notes are an integral part of these financial statements.

TRAVERSE AREA DISTRICT LIBRARY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2005

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Library services	\$ 4,148,811	\$ 284,273	\$ 101,670	\$ (3,762,868)
Interest on long-term debt	133,890	-	-	(133,890)
Total governmental activities	<u>\$ 4,282,701</u>	<u>\$ 284,273</u>	<u>\$ 101,670</u>	<u>(3,896,758)</u>
General revenues:				
Property taxes				
Levied for general purposes				3,231,152
Levied for debt service				692,853
Fines and forfeitures				398,542
Unrestricted investment earnings				<u>65,742</u>
Total general revenues				<u>4,388,289</u>
Change in net assets				491,531
Net assets, beginning of year, as restated				<u>2,505,549</u>
Net assets, end of year				<u><u>\$ 2,997,080</u></u>

The accompanying notes are an integral part of these financial statements.

TRAVERSE AREA DISTRICT LIBRARY

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2005

	General	Special Revenue
ASSETS		
Cash and cash equivalents	\$ 368,285	\$ -
Investments	1,302,127	272,264
Receivables		
Interest	11,796	2,630
Property taxes	3,034,388	-
Due from other funds	3,574	-
Prepaid expenditures	19,601	-
Total assets	\$ 4,739,771	\$ 274,894
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 13,795	\$ -
Accrued liabilities	41,173	-
Due to other funds	36,371	-
Deferred revenue	3,535,915	-
Total liabilities	3,627,254	-
Fund balances		
Fund balance		
Reserved for:		
Permanent fund	-	-
Unreserved		
Designated		
Budget stabilization	313,224	-
Equipment replacement	155,345	-
Branch expansion	203,078	-
Children's programs	77,426	-
Undesignated	363,444	274,894
Total fund balances	1,112,517	274,894
Total liabilities and fund balances	\$ 4,739,771	\$ 274,894

The accompanying notes are an integral part of these financial statements.

Debt Service	Permanent Fund	Total
\$ 120,882	\$ -	\$ 489,167
-	20,779	1,595,170
-	201	14,627
576,090	-	3,610,478
32,797	-	36,371
-	-	19,601
\$ 729,769	\$ 20,980	\$ 5,765,414
\$ -	\$ -	\$ 13,795
-	-	41,173
-	-	36,371
661,040	-	4,196,955
661,040	-	4,288,294
-	20,000	20,000
-	-	313,224
-	-	155,345
-	-	203,078
-	-	77,426
68,729	980	708,047
68,729	20,980	1,477,120
\$ 729,769	\$ 20,980	\$ 5,765,414

TRAVERSE AREA DISTRICT LIBRARY

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

DECEMBER 31, 2005

Fund balances - total governmental funds	\$ 1,477,120
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	11,966,282
Deduct - accumulated depreciation on capital assets	(4,181,975)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(180,659)
Add - unamortized issuance costs and premiums	249,422
Deduct - bonds payable	(6,295,000)
Deduct - accrued interest on bonds payable	<u>(38,110)</u>
Net assets of governmental activities	<u>\$ 2,997,080</u>

The accompanying notes are an integral part of these financial statements.

TRAVERSE AREA DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>General</u>	<u>Special Revenue</u>
REVENUES		
Property taxes	\$ 3,231,152	\$ -
State grants	117,277	-
Other grants	6,700	-
Charges for services	284,273	-
Fines and forfeitures	398,542	-
Investment income	52,223	9,086
Contributions and other income	11,170	-
	<u>4,101,337</u>	<u>9,086</u>
TOTAL REVENUES		
EXPENDITURES		
Current		
Personnel	2,556,375	-
Supplies	468,070	-
Other services and charges	869,709	-
Capital outlay	31,423	-
Debt service		
Bond issuance costs	-	-
Payment to refunding escrow agent	-	-
Principal	-	-
Interest and fiscal charges	-	-
	<u>3,925,577</u>	<u>-</u>
TOTAL EXPENDITURES		
REVENUES OVER (UNDER) EXPENDITURES	<u>175,760</u>	<u>9,086</u>
OTHER FINANCING SOURCES (USES)		
Refunding bond issue	-	-
Premium on refunding bond issue	-	-
Payment to refunding escrow agent	-	-
	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)		
	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	175,760	9,086
FUND BALANCES, BEGINNING OF YEAR	<u>936,757</u>	<u>265,808</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,112,517</u>	<u>\$ 274,894</u>

The accompany notes are an integral part of these financial statements.

Debt Service	Permanent Fund	Total
\$ 692,853	\$ -	\$ 3,924,005
-	-	117,277
-	-	6,700
-	-	284,273
-	-	398,542
3,479	954	65,742
-	-	11,170
<u>696,332</u>	<u>954</u>	<u>4,807,709</u>
-	-	2,556,375
-	-	468,070
-	55	869,764
-	-	31,423
106,680	-	106,680
72,742	-	72,742
355,000	-	355,000
172,547	-	172,547
<u>706,969</u>	<u>55</u>	<u>4,632,601</u>
<u>(10,637)</u>	<u>899</u>	<u>175,108</u>
5,920,000	-	5,920,000
88,705	-	88,705
(6,008,705)	-	(6,008,705)
<u>-</u>	<u>-</u>	<u>-</u>
(10,637)	899	175,108
<u>79,366</u>	<u>20,081</u>	<u>1,302,012</u>
<u>\$ 68,729</u>	<u>\$ 20,980</u>	<u>\$ 1,477,120</u>

TRAVERSE AREA DISTRICT LIBRARY

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balances - total governmental funds	\$ 175,108
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	309,674
Deduct - depreciation expense	(535,023)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but is reported as a decrease in long-term liabilities on the statement of net assets.

Add - principal payments on bonds and notes payable	355,000
Add - balance of bonds refunded	5,850,000
Deduct - refunding bonds issued	(5,920,000)
Add - refunding bond issuance costs	249,422

Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.

Deduct - revenues accrued in prior year which were deferred on the fund statements	(33,477)
Add - decrease in compensated absences payable	2,170
Add - decrease in accrued interest payable on bonds	38,657

Change in net assets of governmental activities	<u>\$ 491,531</u>
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The accompanying notes are an integral part of these financial statements.

TRAVERSE AREA DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 3,209,000	\$ 3,209,000	\$ 3,231,152	\$ 22,152
State grants	135,443	116,443	117,277	834
Other grants	4,000	4,000	6,700	2,700
Charges for services	290,120	290,120	284,273	(5,847)
Fines and forfeitures	413,000	413,000	398,542	(14,458)
Investment income	37,800	37,800	52,223	14,423
Contributions and other income	6,000	6,000	11,170	5,170
TOTAL REVENUES	4,095,363	4,076,363	4,101,337	24,974
EXPENDITURES				
Current				
Personnel	2,522,511	2,593,211	2,556,375	36,836
Supplies	479,000	482,000	468,070	13,930
Other services and charges	922,197	882,000	869,709	12,291
Capital outlay	90,000	70,000	31,423	38,577
TOTAL EXPENDITURES	4,013,708	4,027,211	3,925,577	101,634
NET CHANGES IN FUND BALANCE	81,655	49,152	175,760	126,608
FUND BALANCES, BEGINNING OF YEAR	936,757	936,757	936,757	-
FUND BALANCES, END OF YEAR	\$ 1,018,412	\$ 985,909	\$ 1,112,517	\$ 126,608

The accompany notes are an integral part of these financial statements.

TRAVERSE AREA DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amount			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Investment income	\$ 3,800	\$ 3,800	\$ 9,086	\$ 5,286
FUND BALANCES, BEGINNING OF YEAR	265,808	265,808	265,808	-
FUND BALANCES, END OF YEAR	<u>\$ 269,608</u>	<u>\$ 269,608</u>	<u>\$ 274,894</u>	<u>\$ 5,286</u>

The accompany notes are an integral part of these financial statements.

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Traverse Area District Library (the "Library") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Traverse Area District Library was established on January 1, 1983 pursuant to the Library Act of Michigan by participating municipalities of Inland and Almira Townships of Benzie County, and from Elmwood Township of Leelanau County. The Library provides library services to the public.

The Reporting Entity

The Library is governed by a Board of Trustees, appointed in accordance with the Library bylaws. The Board has governance responsibilities over all activities related to the Traverse Area District Library. The Board receives funding from local and state government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental "reporting entity" as defined by the Government Accounting Standards Board since the Board members, who are appointed, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

The Traverse Area District Library maintains associate library relationships with the Peninsula Community, Fife Lake Public, and Interlochen Public Libraries. These contractual relationships provide for an exchange of library services. The agreements also provide for payments to the associate members of amounts based on varying factors, including statistics provided by the Library of Michigan, millage allowances and penal fine revenue sharing. Supplemental payments are also made to the associate members at the discretion of the Board of Trustees. The Library operates branches in Kingsley and East Bay Townships.

The Traverse Area District Library also serves as the Regional Library for the blind and physically handicapped. The expenditures related to this program are partially funded through State and Federal grants.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by charges for services and tax revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State revenue, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for financial resources of the Library which are not required to be reported in another fund.

The *special revenue fund* is utilized to accumulate money for acquiring, constructing, extending, altering, repairing, or equipping public improvements or buildings.

The *debt service fund* is utilized to account for the accumulation and disbursement of funds to provide for the debt service on Library debts.

The *permanent fund* is utilized to account for the corpus and earnings of a trust of which the earnings can be spent.

Budgetary Data

The annual budgets are prepared by the Library's management and adopted by the Library Board; subsequent amendments are approved by the Library Board. During the current year, the budget was amended in a legally permissible manner.

The budgets have been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenue, expenditures and changes in fund balances – budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Board is included in the financial statements.

The District Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or about September 1, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. On or about September 30, the budget is legally enacted through passage of a resolution.
- d. The District Library Director is authorized to transfer budgeted amounts within any activities.
- e. Appropriations for the funds lapse at the end of the fiscal year.

Property Taxes Receivable

Property taxes are levied and attach as an enforceable lien of property on December 1 on the taxable valuation of property as of the preceding December 31st. The property taxes are billed and collected by local units of government within the Library District, which then remit the District Library's designated portion on a semi-monthly basis. During March of each year, uncollected real property taxes are transferred to the respective County which pays the Library for those balances and accepts responsibility for collection. Responsibility for the collection of unpaid personal property taxes remains with the local units of government.

Although the Library's 2005 ad valorem tax is levied and collectible on December 1, 2005, it is the Library's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Library's operations.

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

General Fund	
Property taxes	\$3,480,288
TCTV2	55,627
Debt Service Fund	
Property taxes	661,040
Total deferred revenues	<u><u>\$4,196,955</u></u>

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

Compensated Absences

District Library employees earn leave in varying amounts based on length of service. Unused leave may accumulate and be carried over to a subsequent year, subject to restrictions. Leave accrued at year end which is subject to payment upon termination has been included as a liability on the statement of net assets and not on the fund balance sheet as the balance has not yet matured from resignations or retirements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted resources are utilized first when allowable costs are incurred where both restricted and unrestricted net assets are available.

Cash and Cash Equivalents

The District Library considers all cash, demand deposits and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net assets). Capital assets are defined by the Library as assets with an initial, individual cost of more than \$500 and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of revenues, expenditures and changes in fund balances) and are subsequently capitalized on the government-wide statements.

Depreciation is recorded over the estimated useful lives of the assets, using the straight-line method for all capital assets, as follows:

	<u>Years</u>
Furniture, fixtures and equipment	3-40
Building and improvements	40
Collections – books, DVDs, videotapes, etc.	6

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

2. CASH DEPOSITS AND INVESTMENTS

Deposits

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>
Cash deposits	\$ 489,167
Investments	<u>1,595,170</u>
Total cash deposits and investments	<u>\$2,084,337</u>

These deposits are in one (1) financial institution located in Michigan. State policy limits the Library's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and recorded at fair value.

The Library chooses to disclose investments by specifically identifying each:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Fifth Third Prime Money Market	N/A	\$ 151,540	not available
FHLMC	1/15/2013	49,110	*
FHLMC	2/15/2007	243,515	*
FNMA	10/15/2006	249,315	*
FNMA	2/15/2009	239,453	*
FNMA	6/15/2006	90,251	*
U.S. Treasury Bonds	1/31/2006	149,766	*
U.S. Treasury Bonds	2/15/2007	195,226	*
U.S. Treasury Bonds	2/15/2014	<u>145,934</u>	*
		<u>\$1,595,170</u>	

* Denotes that investment is backed by the full faith of the U.S. Government. Rating disclosure is not required for these investments.

Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Library's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the following listing. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment as required by GASB Statement #40 are identified above for investments held at year end.

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the Library's investment policy. As of year-end, \$485,531 of the Library's bank balance of \$585,531 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the Library's investment policy. The custodial credit risk for the above money market mutual fund cannot be determined because the mutual fund does not consist of specifically identifiable securities. The Library is exposed to custodial credit risk for the remaining securities because they are uninsured and unregistered with securities held by the counter party or the counter party's trust department or agent but not in the Library's name.

Statutory Authority

State statutes authorize the Library to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

3. RETIREMENT PLANS

The Library participants in two retirement programs as detailed below:

Employees Investment Plan and Trust

The Library participates in a self-administered defined contribution pension plan established on June 1, 1985. Employees are eligible to participate in the plan after reaching 21 years of age and providing 3 months of service. As authorized by the plan document, each participant may contribute from 1% to 15%

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

of compensation to this plan. The Library may contribute each year, depending on its profitability. Participants in the plan are vested depending on their years of service. The employee will be credited with one year of service for each Plan year in which at least 1,000 hours of service were completed. All employee contributions are 100% vested at all times.

The employer contribution for the year totaled \$88,424. The employee contribution totaled \$204,669. Plan provisions and contribution requirements are established and may be amended by the Library Board.

Defined Benefit Plan – Municipal Employees Retirement System of Michigan

The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time Library employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The Library was required to contribute at an actuarially determined rate of 8.87%. Beginning October 1, 2005, the rate increased to 11.65%. Participating employees are not required to contribute to the Plan. The contribution requirements of the Library are established and may be amended by the Board of Trustees.

For the year ended December 31, 2005, the Library's actual and required contribution for MERS was \$155,836. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit; and (d) Post-retirement Benefits will increase 2.5% per year. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2003	\$122,860	100%	\$ -
2004	137,138	100%	-
2005	155,836	100%	-

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/02	\$1,562,456	\$1,836,999	\$274,543	85%	\$1,304,056	21%
12/31/03	1,744,032	2,035,383	291,351	86%	1,404,426	21%
12/31/04	1,928,066	2,240,158	312,092	86%	1,539,301	20%

4. LONG-TERM DEBT

Long-term debt of the Library consists of the following:

	Balance January 1, 2005	Increases	(Decreases)	Balance December 31, 2005	Due Within One Year
2005 general obligation refunding bonds at 2.5-4.0% interest with principal payments ranging from \$55,000 to \$635,000 through 2017	\$ -	\$5,920,000	\$ -	\$5,920,000	\$ 55,000
1996 general obligation bonds (non-refunded portion) at 5.0-7.0% interest with principal payments of \$375,000 through 2006	6,580,000	-	(6,205,000)	375,000	375,000
	6,580,000	5,920,000	(6,205,000)	6,295,000	430,000
Compensated absences	182,829	5,029	(7,199)	180,659	18,066
Totals	\$6,762,829	\$5,925,029	\$(6,212,199)	\$6,475,659	\$448,066

General obligation bonds are reported net of \$249,422 of deferred issuance cost on the statement of net assets. The balance of these bonds will be paid from the debt service fund millage. Compensated absences are liquidated by the general fund.

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

The annual requirements to pay principal and interest on long-term debt outstanding at year-end, are as follows:

Year Ending December 31	Principal	Interest
2006	\$ 430,000	\$ 215,782
2007	450,000	196,156
2008	465,000	182,431
2009	480,000	168,256
2010	495,000	153,322
2011-2015	2,730,000	501,956
2016-2017	1,245,000	50,300
	<u>\$6,295,000</u>	<u>\$1,468,203</u>

5. ADVANCE REFUNDINGS

During the year ended December 31, 2005, the Traverse Area District Library issued \$5,920,000 of Grand Traverse and Leelanau County general obligation bonds. The proceeds were used to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$5,850,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Assets. This advanced refunding was undertaken to reduce total debt service payments by \$497,297, which resulted in an economic gain of \$381,496.

As of December 31, 2005, \$5,850,000 of bonds are considered defeased.

6. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage during the past year.

7. INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

	Due From Other Funds		Due to Other Funds
General Fund	\$ 3,574	General Fund	<u>\$36,371</u>
Debt Service Fund	32,797		
	<u>\$36,371</u>		

Interfund balances primarily reflect loans made from funds with cash and short-term investments to those requiring temporary cash flows needs.

TRAVERSE AREA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

8. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	\$ 345,545	\$ -	\$ -	\$ 345,545
Capital assets being depreciated:				
Building	7,437,943	-	-	7,437,943
Collections	2,669,291	294,252	195,710	2,767,833
Furniture and equipment	1,399,539	15,422	-	1,414,961
Total capital assets being depreciated	11,506,773	309,674	195,710	11,620,737
Accumulated depreciation				
Building	1,133,458	188,003	-	1,321,461
Collections	1,909,118	262,304	195,710	1,975,712
Furniture and equipment	800,086	84,716	-	884,802
Total accumulated depreciation	3,842,662	535,023	195,710	4,181,975
Total capital assets being depreciated	7,664,111	(225,349)	-	7,438,762
Total capital assets, net	\$8,009,656	\$(225,349)	\$ -	\$7,784,307

9. PRIOR PERIOD ADJUSTMENT

The beginning balance of unrestricted net assets has been adjusted to decrease the balance of compensated absences payable to the correct amount at December 31, 2004. The resulting increase in net assets was \$335,346.

10. COMMITMENTS

On June 25, 1999, the Library entered into a contract with Cherry Capital Cable Council whereby the Library will act as fiscal agent of the Cable Council for administration of cable television public and community access, training, equipment, production, and distribution. The contracted fee received by the Library will be dependent on estimated costs incurred and the revenues received by the Cable Council each year. Any excess fees received by the Library over and above its costs are to be carried forward to the following fiscal year. The contract is extended through December 31, 2005, and can be canceled by giving six months written notice.

The Traverse Area District Library has entered into a lease with the Village of Kingsley for the use of premises located at 104 S. Brownson Avenue, Kingsley, Michigan. The lease calls for annual lease payments of one dollar (\$1.00) and other good and valuable consideration. It is automatically renewed from year to year on the same terms and conditions unless one of the parties notifies the other in writing no less than ninety (90) days prior to the end of the term of the lease of its desire to terminate the lease. The Library also leases facilities from East Bay Township under similar terms.

* * * * *

TRAVERSE AREA DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 3,209,000	\$ 3,209,000	\$ 3,231,152	\$ 22,152
State grants	135,443	116,443	117,277	834
Other grants	4,000	4,000	6,700	2,700
Charges for services	290,120	290,120	284,273	(5,847)
Fines and forfeitures	413,000	413,000	398,542	(14,458)
Investment income	37,800	37,800	52,223	14,423
Contributions and other income	6,000	6,000	11,170	5,170
TOTAL REVENUES	4,095,363	4,076,363	4,101,337	24,974
EXPENDITURES				
Current				
Personnel				
Salaries and wages	1,896,700	1,961,145	1,920,854	40,291
Social security taxes	38,345	39,725	38,987	738
Medical insurance	324,328	324,023	319,385	4,638
Life insurance	7,288	7,750	7,200	550
Retirement contributions	226,650	238,776	248,650	(9,874)
Workers' compensation insurance	6,000	4,095	4,137	(42)
Disability insurance	23,200	17,697	17,162	535
Total personnel	2,522,511	2,593,211	2,556,375	36,836
Supplies				
Office supplies	153,000	156,000	155,843	157
Operating supplies	300,000	300,000	294,697	5,303
Repair and maintenance	26,000	26,000	17,530	8,470
Total supplies	479,000	482,000	468,070	13,930
Other services and charges				
Professional and contract services	150,244	110,047	170,759	(60,712)
Communications	40,000	40,000	15,936	24,064
Transportation and travel	33,000	33,000	12,833	20,167
Printing and publishing	16,000	16,000	12,618	3,382
Insurance and bonds	30,000	30,000	26,674	3,326
Public Utilities	95,700	95,700	95,949	(249)
Repair and maintenance	195,500	195,500	183,691	11,809
Aid to other units	357,053	357,053	348,035	9,018
Miscellaneous	4,700	4,700	3,214	1,486
Total other services and charges	922,197	882,000	869,709	12,291
Capital outlay	90,000	70,000	31,423	38,577
TOTAL EXPENDITURES	4,013,708	4,027,211	3,925,577	101,634
NET CHANGES IN FUND BALANCE	81,655	49,152	175,760	126,608
FUND BALANCES, BEGINNING OF YEAR	936,757	936,757	936,757	-
FUND BALANCES, END OF YEAR	\$ 1,018,412	\$ 985,909	\$ 1,112,517	\$ 126,608



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

March 8, 2006

To the Board of Directors
Traverse Area District Library
Traverse City, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Traverse Area District Library, as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated March 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Traverse Area District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Traverse Area District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board members, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

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March 8, 2006

Board of Trustees
Traverse Area District Library
Traverse City, Michigan

In planning and performing our audit of the financial statements of Traverse Area District Library for the year ended December 31, 2005, we considered the Library's internal control to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated March 8, 2006 on the financial statements of Traverse Area District Library.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with various personnel, and we will be pleased to discuss it in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations.

Our comments are summarized as follows:

TIMELY RECONCILIATION OF ACCOUNT BALANCES

During our audit, we noted that the cash balance per the general ledger was materially overstated by the same amount throughout the entire year. While the bank reconciliations were prepared within a reasonable period of time after receiving the statements, these reconciliations included a consistent unreconciled balance each month. Ultimately the error was identified as a prior year audit adjustment which needed to be reversed. We recommend that management investigate any unreconciled balance between general ledger and supporting detail and make appropriate corrective adjustments in a timely manner. This will allow for improved periodic financial reporting which will allow management and the board to make more informed financial decisions.

SEGREGATION OF DUTIES

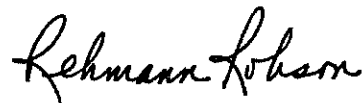
In any accounting system, it is important to segregate the functions of record-keeping, custody, and authority over assets. It came to our attention during the audit that one member of management is counting cash collections, reconciling collections to supporting documents, making the bank deposit, and journalizing the transactions into the accounting system. In order to improve internal controls, we suggest that the individual responsible for custody, counting and deposit of cash balances be independent of the individual responsible for reporting and reconciliation of deposited balances.

We understand that segregation of duties is limited in an organization with limited staff. Nevertheless, we recommend that the Library improve oversight over the cash and investment balances. To improve oversight over there balances we suggest that the Library Director receive directly all bank and investment statements which should be periodically reviewed. In addition we suggest that the Library Director review cash and investment account reconciliations monthly.

During our audit we noted that the cash receipts are frequently in excess of the balances reported on supporting system and other reports. This is the result of transactions which are not currently being recorded when payment is received. We suggest that the receipting process be reviewed to assure that, whenever possible, payments are being recorded when received.

We would like to thank the staff of the Library for their assistance and cooperation during the audit. We look forward to working with you on future engagements.

This information is intended solely for the use of the Board of Trustees and management of Traverse Area District Library and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Johnson". The signature is written in dark ink and is positioned in the lower right area of the page.